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## Idaho Department of Administration

### Management Report on Financial Procedures

Issued: April 4, 2005  
Fiscal Year: 2002, 2003, and 2004



## EXECUTIVE SUMMARY LEGISLATIVE AUDITS

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### IDAHO DEPARTMENT OF ADMINISTRATION

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**PURPOSE AND SCOPE.** We have completed certain financial audit procedures on the Idaho Department of Administration's financial activities that occurred during the fiscal years ended June 30, 2001, 2002, 2003, and 2004. These procedures, together with procedures performed at other State agencies, allow us to express our opinion on the statewide basic financial statements prepared by the State Controller's Office.

**CONCLUSION.** Four findings and recommendations are included in this report, that will, if implemented, improve efficiency, effectiveness, compliance, and controls of the Department. Although we discussed these issues for improvement, we conclude that the financial operations of the Department meet accepted standards and that the it substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

**FINDINGS AND RECOMMENDATIONS.** We have summarized the four findings and recommendations below.

**FINDING #1.** The Idaho Special Indemnity Fund (ISIF) made no documented effort to collect assessments and penalties, which totaled \$365,000 for the past three completed assessment years. The ISIF is also called the "Second Injury Fund" and is designed to encourage employers to hire impaired workers. The ISIF is funded by an annual assessment and interest earnings. The ISIF provides the annual assessment to the Idaho Industrial Commission and the Industrial Commission bills companies that provide workers compensation insurance for their portion of the ISIF assessment.

The ISIF, by agreement with the Industrial Commission, is responsible for collecting past-due assessments and penalties. The ISIF did not follow up on past-due assessments and penalties and could not explain why assessment balances and penalties went unresolved. Making no effort to follow up on past-due amounts may result in insurers foregoing payment and the ISIF being subsidized by those insurers who pay the assessment.

**We recommend** that the ISIF monitor and collect past-due assessments and penalties, and inform the Industrial Commission about account balances so the Industrial Commission can update its records.

**FINDING #2.** The Division of Purchasing does not adequately monitor vendors to ensure that all required fees are remitted. The majority of the Division's revenue (about \$600,000) comes from administrative fees collected by vendors. The vendors collect the fees from State agencies when they sell products to the agencies under certain purchasing contracts. Vendors are required to remit the fees on a quarterly basis. Adequate monitoring is not completed to ensure vendors are properly collecting the fees or remitting all fees they collect.

The Division was unable to provide a listing of contracts containing the administrative fee clause without separately reviewing each contract. Without such a list, it is difficult to monitor vendors to determine if fees are correctly remitted. We estimate that only 40% of the vendors remitted fees for each quarter in 2004. Also, some fees were incorrectly charged on non-contract purchases.

**We recommend** that the Division consider: (1) keeping a list of contracts with the administrative fee clause, (2) developing a remittance form for vendors to complete and submit each quarter, (3) comparing the forms submitted

to the list of administrative fee contacts to ensure vendors submit a form, (4) establishing dates in which the forms and remittances should be submitted, and (5) testing (sampling) vendor remittances periodically to ensure accuracy.

**FINDING #3.** The State Record Center's billing and accounting system does not provide accurate billing and financial information and, under current procedures and policies, additional space will continually be needed to store the 300 boxes of records that are added each month. The State Record Center provides records management services to State agencies. It stores agency records in boxes, computer backup media, and microfilm. The Record Center also manages the physical movement of these records to and from State agencies and bills the agencies for its services.

The billing system is cumbersome and requires multiple entries of financial data. This billing system, other manually intensive accounting processes, and inadequate staff training have caused billings and management reports to be incorrect and incomplete.

The Record Center is storing boxes of records that could be destroyed, converted to computer backup media or microfilm, or transferred to the State Archives. At the current rate, the Record Center is receiving a net 300 boxes for storage each month. While storage requirements may grow over time, the requirements could be reduced if the State's retention policies and procedures were modified.

**We recommend** that the billing system be updated and Record Center staff be trained in its use. **We also recommend** that the Department consider various ways to reduce the amount of records it is storing and, if needed, modify record retention procedures and policies accordingly.

**FINDING #4.** Some accounting procedures, documentation, and controls are inadequate to ensure accurate information. The Department is a large and complex entity with much of its accounting completed by program personnel. The complexity and decentralization of accounting responsibilities require good procedures and controls to provide accurate information and ensure that assets are not misappropriated. Most of the errors and control weaknesses we found were not material, but should be addressed by the Department to ensure good controls and accurate information in the future. We found transactions with inadequate documentation, coding errors, calculation errors, and receipt processing control weaknesses.

**We recommend** that the Department develop controls and procedures that will help eliminate accounting errors and increase the accuracy of information. Specifically, the Department should: (1) stamp expenditure documentation directly to show it is approved, (2) obtain properly approved documentation before processing sight drafts, (3) require customers to send checks directly to the fiscal section instead of to program personnel, (4) make payments promptly, (5) use the correct transaction codes to record revenues and expenditures, (6) make necessary corrections to the lease/purchase analysis worksheets, and (7) provide needed reconciliations and reviews to ensure that billings are correct.

**PRIOR FINDINGS AND RECOMMENDATIONS.** There were 12 findings and recommendations in prior reports. Following is the status of those findings and recommendations.

**PRIOR FINDING #1.** The Department had not invested available cash in the State Treasurer's long-term investment plan to increase earnings. Available cash was subsequently invested and additional earnings were realized. **CLOSED**

**PRIOR FINDING #2.** The Department failed to follow up on \$9 million in lottery proceeds that had not been received. The Department is now closely reviewing financial activities to ensure that it receives all money due. **CLOSED**

**PRIOR FINDING #3.** Appropriation and project balances were not adequately accounted for in Department records. We recommended that the Department maintain better reports to monitor project balances, correct accounting records as needed, and return agency money as applicable. The Department has implemented a new project accounting system, fixed the accounting records, and addressed agency advances and the need to return them. **CLOSED**

**PRIOR FINDING #4.** The Department could not determine specific costs for various insurance plan coverages. The Department modified its accounting system and established controls to ensure proper accounting and segregation of insurance transactions. **CLOSED**

**PRIOR FINDING #5.** Receivables of nearly \$5 million were not monitored or collected in accordance with Department policies. The Department has developed procedures to ensure compliance with its policies for accounts receivable and significantly reduced outstanding balances. **CLOSED**

**PRIOR FINDING #6.** Collections were not being deposited in a timely manner. The Department reviewed its receipting procedures and made necessary changes. **CLOSED**

**PRIOR FINDING #7.** Balance sheets for various Department funds were not accurate. The Department has corrected the financial statements and reviews balance sheet accounts to ensure proper coding and accuracy. **CLOSED**

**PRIOR FINDING #8.** Actuarial recommendations regarding group insurance had not been achieved. An outside actuary recommended that the Department develop a long-range plan for reserves and modifications of coverages and premiums. The Department is working with the actuary and appropriate State officials to develop a long-range plan. **IN PROCESS**

**PRIOR FINDING #9.** The Department did not have a short- and long-term technology plan for critical assessment and information technology needs. A short- and long-term plan was developed. **CLOSED**

**PRIOR FINDING #10.** The Department did not have a documented disaster recovery plan addressing physical disasters as well as those caused by human error. A business resumption plan was developed. **CLOSED**

**PRIOR FINDING #11.** The Information Technology Resource Management Council (ITRMC) had not completed all work required by statute. Duties such as reviewing and evaluating information technology projects and maintaining an inventory of information technology resources were not always followed and needed to be improved. The Department is now in compliance with these requirements. **CLOSED**

**PRIOR FINDING #12.** The Department did not always comply with the U.S. Office of Management and Budget (OMB) *Circular A-87*. OMB *Circular A-87* requires that program expenses be reported at actual costs and that costs are allocated to particular cost objectives based on the relative benefits. The Department's allocation of central service costs were based on budgeted costs and based on three factors, one of which was incorrect. The Department now allocates actual costs based on factors that are correct and properly supported. **CLOSED**

**AGENCY RESPONSE.** The Department has reviewed the report and is in general agreement with its contents. The Department's complete response is included in the Findings and Recommendation section of the report.

**FINANCIAL SUMMARY.** The procedures completed and described above help us express our opinion on the fairness of presentation of the *Statewide Comprehensive Annual Financial Report (CAFR)*. Although no opinion is given on the financial data presented in this report, one is given on all State funds in the *CAFR*, including the financial data presented here.

The Department had expenditures of about \$262 million during fiscal year 2004. Most of the expenditures were made to pay group insurance claims and to pay for the construction and remodeling of State buildings through the Permanent Building Fund. Approximately \$8.4 million was expended on personnel costs. Transfers to the Permanent Building Fund are comprised of one-half of the State Lottery income (\$10 million) and various tax receipts (cigarette, beer, sales, and the \$10 permanent building tax) from the State Tax Commission (\$18.4 million). Transfers to the Special Indemnity Fund are from the Industrial Commission who collects the annual Special Indemnity Fund assessment from companies that provide workers compensation.

<b>Fund</b>	<b>Title</b>	<b>Beginning Appropriation or Cash</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Net Transfers</b>	<b>Ending Appropriation or Cash</b>
<b><u>Department of Administration--Financial Summary FY 2001</u></b>						
0001	General Fund	\$4,437,385	\$0	\$4,371,257	\$0	\$66,128
0125	Indirect Cost Recovery	20	937,128	933,834	0	3,314
0348	Federal	0	0	0	0	0
0365	Permanent Building Fund	59,355,881	24,755,687	54,026,547	100,064,759	130,149,780
0366	Governor's Residence Fund	1,402,756	76,822	51,940	0	1,427,638
0450	Administration and Accounting Services	1,899,429	15,684,638	15,080,194	(696,319)	1,807,554
0456	Federal Surplus Property	9,310	552,834	566,842	16,914	12,216
0461	Group Insurance	44,171,475	116,982,667	111,307,579	0	49,846,563
0462	Risk Management	20,148,773	9,083,393	5,347,953	0	23,884,213
0475	Professional Services	3,842	443,764	430,605	0	17,001
0481	Capital Endowment Income	35,316	259,398	995,501	32,983,000	32,282,213
0498	Hispanic Cultural Center	51,520	5,601	0	50,000	107,121
0519	Special Indemnity Fund	3,218,756	212,450	4,489,865	4,606,651	3,547,992
<b><u>Department of Administration--Financial Summary FY 2002</u></b>						
0001	General Fund	\$4,728,644	\$0	\$4,412,368	\$0	\$316,276
0125	Indirect Cost Recovery	3,314	1,179,541	1,124,358	0	58,497
0348	Federal	0	2,500	342	0	2,158
0365	Permanent Building Fund	130,149,780	21,089,483	45,985,444	(36,277,831)	68,975,988
0366	Governor's Residence Fund	1,427,638	92,698	54,106	0	1,466,230
0450	Administration and Accounting Services	1,807,554	16,274,695	15,754,160	(309,532)	2,018,557
0456	Federal Surplus Property	12,216	773,487	748,772	0	36,931
0461	Group Insurance	49,846,563	126,184,756	125,903,872	0	50,127,447
0462	Risk Management	23,884,213	8,326,655	6,377,152	0	25,833,716
0475	Professional Services	17,001	516,839	518,288	0	15,552
0481	Capital Endowment Income	32,282,213	2,073,062	1,221,084	(21,759,105)	11,375,086
0498	Hispanic Cultural Center	107,121	5,145	0	0	112,266
0519	Special Indemnity Fund	3,547,992	279,099	4,588,902	5,375,125	4,613,314

<b>Fund</b>	<b>Title</b>	<b>Beginning Appropriation or Cash</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Net Transfers</b>	<b>Ending Appropriation or Cash</b>
<b><u>Department of Administration--Financial Summary FY 2003</u></b>						
0001	General Fund	\$2,998,700	\$0	\$2,699,855	\$0	\$298,845
0125	Indirect Cost Recovery	58,497	1,043,010	1,067,866	0	33,641
0348	Federal	2,158	15,000	12,994	0	4,164
0365	Permanent Building Fund	68,975,988	34,155,119	58,021,605	(26,805,944)	18,303,558
0366	Governor's Residence Fund	1,466,230	73,462	54,437	0	1,485,255
0450	Administration and Accounting Services	2,018,557	15,241,164	14,911,863	0	2,347,858
0456	Federal Surplus Property	36,931	582,740	614,654	0	5,017
0461	Group Insurance	50,127,447	127,975,248	124,240,808	0	53,861,887
0462	Risk Management	25,833,716	7,937,007	7,971,625	(4,999,456)	20,799,642
0475	Professional Services	15,552	525,030	485,120	0	55,462
0481	Capital Endowment Income	11,375,086	317,273	2,278,210	(7,870,415)	1,543,734
0498	Hispanic Cultural Center	112,266	3,662	115,927	0	1
0519	Special Indemnity Fund	4,613,314	448,642	4,902,891	5,049,247	5,208,312

**Department of Administration--Financial Summary FY 2004**

0001	General Fund	\$8,814,700	\$12,412	\$8,699,946	\$0	\$127,166
0125	Indirect Cost Recovery	33,641	1,091,435	1,076,582	0	48,494
0348	Federal	4,164	0	4,154	0	10
0365	Permanent Building Fund	18,303,558	66,733,676	84,087,674	28,417,735	29,367,295
0366	Governor's Residence Fund	1,485,255	74,701	61,016	0	1,498,940
0450	Administration and Accounting Services	2,347,858	15,719,948	14,995,652	(152,539)	2,919,615
0456	Federal Surplus Property	5,017	657,378	678,018	61,437	45,814
0461	Group Insurance	53,861,887	150,796,944	141,983,403	0	62,675,428
0462	Risk Management	20,799,642	7,839,373	5,374,463	0	23,264,552
0475	Professional Services	55,462	527,540	470,937	0	112,065
0481	Capital Endowment Income	1,543,734	109,796	124,413	136,670	1,665,787
0519	Special Indemnity Fund	5,208,312	260,144	4,739,695	4,498,578	5,227,339

**OTHER ISSUES.** In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Administration and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by the director, Pam Ahrens, and her staff.

**QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:**

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